AIR CANADA

First Quarter 2009
Interim Unaudited
Consolidated Financial Statements and Notes

May 8, 2009

Consolidated Statement of Operations

Unaudited (Canadian dollars in millions except per share figures)		Three Months Ended March 31 2009	2008
Operating revenues			
Passenger		$ 2,011	$ 2,311
Cargo		80	124
Other		300	292
		2,391	2,727
Operating expenses			
Aircraft fuel		593	715
Wages, salaries and benefits		458	481
Airport and navigation fees		230	241
Capacity purchase with Jazz	Note 7	246	235
Depreciation and amortization	Note 2	159	171
Aircraft maintenance		189	203
Food, beverages and supplies		67	77
Communications and information technology		79	73
Aircraft rent		86	63
Commissions		49	53
Other		423	427
		2,579	2,739
Operating loss before under-noted item		**(188)**	**(12)**
Provision for cargo investigations		-	(125)
Operating loss		**(188)**	**(137)**
Non-operating income (expense)			
Interest income		6	18
Interest expense	Note 2	(105)	(81)
Interest capitalized		1	17
Loss on capital assets	Note 2	-	(36)
Loss on financial instruments recorded at fair value	Note 5	(10)	(23)
Other		(1)	(2)
		(109)	(107)
Loss before the following items		**(297)**	**(244)**
Non-controlling interest		(4)	(3)
Foreign exchange loss		(101)	(89)
Recovery of (provision for) income taxes			
Current		3	-
Future		(1)	48
Loss for the period		**$ (400)**	**$ (288)**
Loss per share			
Basic and diluted		$ (4.00)	$ (2.88)

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Financial Position

Unaudited (Canadian dollars in millions)		March 31 2009	December 31 2008
ASSETS			
Current			
Cash and cash equivalents		$ 600	$ 499
Short-term investments		487	506
		1,087	1,005
Restricted cash		30	45
Accounts receivable		714	702
Aircraft fuel inventory		53	97
Spare parts and supplies	Note 2	95	20
Collateral deposits for fuel derivatives	Note 5	181	328
Prepaid expenses and other current assets		188	206
		2,348	2,403
Property and equipment	Note 2	7,394	7,469
Intangible assets		993	997
Deposits and other assets		507	495
		$ 11,242	**$ 11,364**
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 1,577	$ 1,440
Fuel derivatives	Note 5	212	420
Advance ticket sales		1,507	1,333
Current portion of long-term debt and capital leases		617	663
		3,913	3,856
Long-term debt and capital leases		4,889	4,691
Future income taxes		87	88
Pension and other benefit liabilities		1,296	1,407
Other long-term liabilities		375	370
		10,560	10,412
Non-controlling interest		192	190
SHAREHOLDERS' EQUITY			
Share capital		274	274
Contributed surplus		1,797	1,797
Deficit		(1,103)	(703)
Accumulated other comprehensive loss		(478)	(606)
		490	762
		$ 11,242	**$ 11,364**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

Unaudited (Canadian dollars in millions)	Three Months Ended March 31 2009	 2008
Share capital		
Common shares	$ 274	$ 274
Total share capital	274	274
Contributed surplus		
Balance, beginning of period	1,797	1,791
Fair value of stock options issued to Corporation employees recognized as compensation expense	-	1
Total contributed surplus	1,797	1,792
Retained earnings (deficit)		
Balance, beginning of period	(703)	322
Loss for the period	(400)	(288)
Total retained earnings (deficit)	(1,103)	34
Accumulated other comprehensive income (loss)		
Balance, beginning of period	(606)	56
Other comprehensive income	128	77
Total accumulated other comprehensive income (loss)	(478)	133
Total retained earnings (deficit) and accumulated other comprehensive income (loss)	(1,581)	167
Total shareholders' equity	**$ 490**	**$ 2,233**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Loss

Unaudited (Canadian dollars in millions)		Three Months Ended March 31 2009	 2008
Comprehensive loss			
Loss for the period		$ (400)	$ (288)
Other comprehensive income (loss), net of taxes:			
Net gains (losses) on fuel derivatives under hedge accounting net of taxes of nil, 2008 - ($46)	Note 5	(1)	100
Reclassification of net realized losses (gains) on fuel derivatives to income net of taxes of $2, 2008 - $11	Note 5	129	(23)
		128	77
Total comprehensive loss		**$ (272)**	**$ (211)**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flow

Unaudited (Canadian dollars in millions)		Three Months Ended March 31 2009	Three Months Ended March 31 2008
Cash flows from (used for)			
Operating			
Loss for the period		$ (400)	$ (288)
Adjustments to reconcile to net cash from operations			
Depreciation and amortization		159	171
Loss on capital assets		-	36
Foreign exchange loss		143	65
Future income taxes		1	(48)
Excess of employee future benefit funding over expense		(103)	(51)
Provision for cargo investigations	Note 1C	-	125
Non-controlling interest		4	3
Fuel and other derivatives	Note 5	(82)	19
Fuel hedge collateral deposits, net	Note 5	147	-
Changes in non-cash working capital balances		289	236
Other		10	(38)
		168	**230**
Financing			
Borrowings	Note 2	267	187
Reduction of long-term debt and capital lease obligations		(423)	(322)
		(156)	**(135)**
Investing			
Short-term investments		19	99
Additions to capital assets		(107)	(403)
Proceeds from sale of assets	Note 2	-	27
Proceeds from sale-leaseback transactions	Note 2	172	411
Other		5	25
		89	**159**
Increase in cash and cash equivalents		**101**	**254**
Cash and cash equivalents, beginning of period		499	527
Cash and cash equivalents, end of period		**$ 600**	**$ 781**
Cash payments of interest		$ 94	$ 73
Cash recoveries of income taxes		$ (3)	$ -

Cash and cash equivalents exclude Short-term investments of $487 as at March 31, 2009 (as at December 31, 2008 - $506).

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Interim Consolidated Financial Statements (unaudited)
(currencies in millions – Canadian dollars)

1. BASIS OF PRESENTATION, CHANGES IN ACCOUNTING POLICIES, AND LIQUIDITY RISK

The accompanying unaudited interim consolidated financial statements are of Air Canada (the "Corporation"), a majority-owned subsidiary of ACE Aviation Holdings Inc. ("ACE"). The term "Corporation" refers to, as the context may require, Air Canada and / or one or more of Air Canada's subsidiaries.

A) BASIS OF PRESENTATION

The unaudited interim consolidated financial statements for the Corporation are based on the accounting policies consistent with those disclosed in Note 2 to the 2008 annual consolidated financial statements of the Corporation, with the exception of the changes in accounting policies described below in part B) Changes in Accounting Policies.

In accordance with Canadian generally accepted accounting principles ("GAAP"), these interim financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with the 2008 annual consolidated financial statements of the Corporation. In management's opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim periods presented.

The Corporation has historically experienced greater demand for its services in the second and third quarters of the calendar year and lower demand in the first and fourth quarters of the calendar year. This demand pattern is principally a result of the high number of leisure travelers and their preference for travel during the spring and summer months. The Corporation has substantial fixed costs in its cost structure that do not meaningfully fluctuate with passenger demand in the short-term.

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current period.

B) CHANGES IN ACCOUNTING POLICIES

Goodwill and Intangible Assets

Effective January 1, 2009 the Corporation adopted the new Canadian Institute of Charted Accountants ("CICA") accounting standard section 3064, *Goodwill and Intangible Assets* which provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. The Corporation does not have acquired goodwill reported on its balance sheet. The Corporation's accounting policy for intangible assets is consistent with the new standard and as a result, no adjustment was recorded on transition.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

Effective January 1, 2009, the Corporation adopted the recommendations of the Emerging Issues Committee ("EIC") of the CICA relating to Abstract EIC-173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This Abstract confirms that an entity's own credit risk and the credit risk of the counterparty should be taken into consideration in determining the fair value of financial assets and liabilities, including derivative instruments. The adoption of this guidance had no significant effect on the Corporation's consolidated financial statements as collateral deposits with fuel derivative counterparties and master netting arrangements were considered in determining that no credit risk adjustment was required on the valuation of the derivatives.

The following is an overview of accounting standard changes that the Corporation will be required to adopt in future years:

Business Combinations, Consolidated Financial Statements and Non-controlling Interests

The CICA issued three new accounting standards in January 2009: section 1582, *Business Combinations*, section 1601, *Consolidated Financial Statements*, and section 1602, *Non-controlling interests*. These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Corporation is in the process of evaluating the requirements of the new standards.

Section 1582 replaces section 1581, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3 – *Business Combinations*. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Sections 1601 and 1602 together replace section 1600 – *Consolidated Financial Statements.* Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27 - *Consolidated and Separate Financial Statements* and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

C) LIQUIDITY RISK

The challenges that the Corporation faced in 2008 and which continue in 2009 are described in Note 1 to the 2008 annual consolidated financial statements of the Corporation. The challenges include the weakened demand for air travel as a result of the recession, continuing interest payments and debt payments and the funding of the Corporation's pension plans. During the first quarter of 2009, demand for the Corporation's air travel and cargo services continued to weaken in both domestic and international markets, and the Corporation expects demand to continue to be a challenge for the remainder of the year. The H1N1 virus is a new factor that may affect demand for air travel. To date, the impact on the Corporation's operations has been minimal. The Corporation is monitoring this risk however, it is unable to predict if the impact on its operations will be significant. In addition, the Corporation's major collective agreements expire in 2009 and uncertainties exist with respect to the outcome of these negotiations. The credit markets also continue to be constrained, raising concerns about available funding for a number of companies, including Air Canada. These factors have had an impact on the liquidity risk of Air Canada. This note updates the year-end disclosures and should be read in conjunction with Note 1 to the 2008 annual consolidated financial statements of the Corporation.

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with its financial liabilities and other contractual obligations. The Corporation monitors and manages liquidity risk by preparing rolling cash flow forecasts, monitoring the condition and value of assets available to be used as security in financing arrangements, seeking flexibility in financing arrangements, and establishing programs to monitor and maintain compliance with terms of financing agreements. The Corporation's principal objective in managing liquidity risk is to maintain a minimum of Cash and cash equivalents and Short-term investments ("unrestricted cash") balance in excess of a target liquidity level of 15% of annual operating revenues. However, given the risks identified herein, management expects there may be significant challenges to achieving its target unrestricted cash to operating revenue ratio of 15% in 2009.

At March 31, 2009, Air Canada had Cash and cash equivalents and Short-term investments of $1,087 ($1,005 as at December 31, 2008), which represents approximately 10% of 2008 annual operating revenues. Management continues to closely monitor the cash flows to ensure the Corporation has adequate cash resources to meet its obligations and commitments when they become due. Unless sufficient new financing is secured, pension relief is obtained and the credit card processing company and Air Canada agree to revised triggers, the Corporation expects that the Cash and cash equivalents and Short-term investments would be substantially reduced over the next 12 months as a result of required deposits with the credit card processing company.

During the first quarter of 2009, management continued to undertake various initiatives and develop plans to manage its operating and liquidity risks taking into account the prevailing economic conditions, including cost containment initiatives and capacity adjustments with the objective of matching capacity to passenger demand. However, given the unfavourable impact of the deterioration in the Canadian dollar versus the US dollar and the nature of the Corporation's cost structure such that fixed costs do not fluctuate proportionately with changes in capacity in the short term, it is expected that unit costs excluding fuel expense, measured as total operating expense less fuel expense over the number of available seat miles, will be a challenge for the remainder of the year.

The Corporation plans to enter into additional financing arrangements and other transactions designed to improve its cash flows and liquidity position. During the first quarter of 2009, the following arrangements were concluded and events occurred:

- Financing arrangements secured by spare parts, spare engines and a Boeing 777 aircraft for aggregate proceeds of $267, net of fees of $5;

- Sale-leaseback of a Boeing 777 aircraft for aggregate proceeds of $172 and the required repayment of a debt obligation related to the aircraft of $128, which included a prepayment fee of $14;
- Inventory financing arrangement under which the Corporation acquired certain spare parts inventories expected to be consumed over the next 12 months for a cash payment of $12 and final payment of $115 in 2010 based upon the foreign exchange rate as at March 31, 2009;
- Repayment of pre-delivery financing of $83 on the Boeing 777 aircraft received during the quarter; and
- Net return of collateral deposits on fuel derivatives in the amount of $147 offset by the settlement of fuel derivative contracts in favour of counterparties in the amount of $217.

Refer to Note 2 for a further description of financing activities and Note 5 for the status of fuel price risk management as at March 31, 2009.

The Corporation has certain assets including aircraft such as its Boeing 777 aircraft and Embraer aircraft, real estate, airport slots and accounts receivable, certain of which have estimated fair values in excess of the respective loan values, and which may be available to support additional financings or other similar transactions. Management has commenced discussions with certain suppliers, financial institutions, leasing companies, government agencies and other stakeholders on alternatives for obtaining additional financing.

Given the current and continuing instability of credit markets and economic conditions, there can be no assurance that the Corporation will be able to conclude further financing or other similar transactions, including on acceptable terms or that the Corporation's assets will generate the expected proceeds. The Corporation may be required to obtain consent from current lenders and/or other third parties for certain such transactions.

A maturity analysis of the Corporation's financial liabilities, other fixed operating commitments and capital commitments is set out in Notes 15 and 14, respectively, to the 2008 annual consolidated financial statements of the Corporation. There have been no significant changes to these amounts other than as described in Note 2 related to the new financings arranged during the quarter.

In addition to the risks related to current economic and other conditions referenced and described herein, the following are the key risks that the Corporation monitors and which may materially impact operating results and liquidity.

Market Risks

Market risk includes the risk that future cash flows will fluctuate because of changes in market prices, including foreign exchange rates, interest rates, and commodity prices. While management is able to mitigate certain of these risks through certain hedging activities, the price of fuel, foreign exchange rates and interest rates are beyond the control of management and market volatility in the future may adversely impact operating results and cash flows. Refer to Note 5 for the status of fuel price risk management as at March 31, 2009, and to the disclosures in Note 15 to the 2008 annual consolidated financial statements of the Corporation regarding market risks.

Pension Funding Obligations

The Corporation maintains several defined benefit pension plans as described in Note 8 to the 2008 annual consolidated financial statements of the Corporation. As at December 31, 2008 the Corporation reported that the solvency deficit as at January 1, 2009 in the registered pension plans, which is used to determine funding requirements, was estimated to be approximately $3,200. During the first quarter of 2009, as a result of updated information regarding the annuity rate to be applied in discounting the pension obligations, this estimate has been revised to $2,850.

The Pension Benefits Standards Act and Regulations allow the use of an asset smoothing method over five years, limited to 110% of the market value of plan assets, to determine minimum funding requirements on a solvency basis. In order to apply this funding method, which is available to companies with federally regulated defined benefit pension plans, Air Canada opted out of the Air Canada Pension Plan Solvency Deficiency Funding Regulations. Opting out of the Air Canada Pension Plan Solvency Deficiency Funding Regulations provides the Corporation with the ability to apply the asset smoothing method over five years, limited to 110% of the market value of plan assets and results in the Corporation being required to fund its solvency deficiency in accordance with the generally applicable funding provisions of the Pension Benefits Standards Act and its Regulations. Management has determined that overall this approach (rather than remaining under the Air

Canada Pension Plan Solvency Deficiency Funding Regulations) provides a more favourable impact with respect to the Corporation's current pension funding obligations.

In March 2009, the Government of Canada proposed regulations to implement pension measures for the purpose of providing temporary solvency funding relief for federally regulated defined benefit pension plans. The proposals as currently drafted include increasing the current limit of 110% for smoothing asset valuation fluctuations over five years to 115% for 2009 and increasing the period for funding a solvency deficiency from five years to ten years, subject to certain conditions including the imposition of deemed trusts over deferred funding provided through such temporary relief. The increase in the period for funding a solvency deficiency from five years to ten years is conditional upon less than one third of both members and retirees objecting to the extended schedule or the provision of a letter of credit to secure the difference between the five and ten year payment schedules. One of these two conditions would need to be met by December 31, 2009. If one third or more of plan members or retirees object or a letter of credit is not provided by the end of 2009, the Corporation would be required to fund the deficiency over the following five years. Funding reductions in subsequent years would be dependent upon satisfying one of the two conditions as noted above.

Based upon the revised estimated solvency deficit, the use of an asset smoothing method at the current 110% limit and the implementation of the ten year payment schedule, the estimated aggregate pension funding payments during 2009 would be approximately $570, an increase of $114 versus 2008. If the temporary solvency funding relief is not implemented or not implemented in a manner which permits the Corporation to benefit from temporary solvency funding relief, the pension funding payments in 2009 would increase by a further $75.

The Corporation continues to assess the impact of these measures which are expected to be adopted through final regulations not yet in place. However, there can be no assurance that the proposed relief will be implemented at all or in a manner which would permit the Corporation to benefit from temporary solvency funding relief. The Corporation continues to monitor the government's actions and dialogue with government officials on this matter. Until the government finalizes and implements its proposal and the funding valuation is completed during the second quarter of 2009, uncertainty as to the amount and timing of additional pension funding continues to exist. Any increase in funding obligations for 2009 would be paid in the second half of the year as the funding in the first half of the year is based upon the January 1, 2008 actuarial valuation reports.

In addition, management is in ongoing discussions with its Canadian-based unions to consider certain funding alternatives including a moratorium and other conditions on funding the pension deficits. These may require government and/or regulatory approval and there can be no assurance that an agreement will be reached between the Corporation and the unions on this matter or that government and/or regulatory approval would be obtained, including in a timely manner so as to provide the Corporation with required funding relief.

Covenants in Credit Card Agreements

The Corporation has various agreements for the processing of customer credit card transactions, as further described in Note 1 to the 2008 annual consolidated financial statements of the Corporation. Under the terms of credit card processing agreements with one of its principal credit card processors, the credit card processing company may withhold payment of funds to Air Canada ("the deposit") upon the occurrence of certain events ("triggering events"). Under these triggering events, beginning at the end of the second quarter 2009, the unrestricted cash required in order to avoid a deposit could be as much as $1.3 billion. Unless sufficient new financing is secured, pension relief is obtained and the credit card processing company and Air Canada agree to revised triggers, the Corporation expects that the Cash and cash equivalents and Short-term investments would be substantially reduced over the next 12 months as a result of required deposits, under the current terms of the agreement with the credit card processing company. The Corporation is currently renegotiating certain terms and conditions, including relating to triggering events, with the credit card processing company. There can be no assurance that an agreement will be reached between the Corporation and the credit card processing company, including in a timely manner.

Cargo Investigations

The Corporation is exposed to potential liabilities related to the investigations of alleged anti-competitive cargo pricing activities, as described in Note 17 to the 2008 annual consolidated financial statements of the Corporation. This preliminary estimate recorded by the Corporation during 2008 is based upon the current status of the investigations and proceedings and the Corporation's assessment as to the potential outcome for certain of them. This provision does not address the proceedings in all jurisdictions, but only where there is sufficient information to do so. Management has determined it is not possible at this time to predict with any degree of certainty the outcome of all proceedings. Additional material provisions may be required. Amounts could become payable within the year and may be materially different than management's preliminary estimate.

Management believes it has developed planned courses of action and identified other opportunities to mitigate the operating and liquidity risks facing the Corporation. However, the Corporation's plans are based on assumptions (including requirements to obtain government and regulatory approval and third party consents) and are subject to important risks and uncertainties described herein and in the Corporation's MD&A. As a result, there is no assurance that management will be able to successfully execute on its plans or achieve any or all of the opportunities it has identified or obtain sufficient liquidity, including if assumptions are not met or events or conditions develop that are not consistent with management's expectations and planned courses of actions.

2. FINANCING AND INVESTING ACTIVITIES

Revolving Credit Facility

As at March 31, 2009, the Corporation had $47 outstanding under the revolving credit facility (December 31, 2008 - $50) drawn at a rate of prime plus 13.00% (March 31, 2009 – 15.50%), which is further described in Note 6 of the 2008 annual consolidated financial statements of the Corporation.

Spare Parts Financing

During the first quarter of 2009, the Corporation received an additional $92 (US$75) principal under the original secured spare parts financing agreement, which is further described in Note 6 (f) of the 2008 annual consolidated financial statements of the Corporation. This financing bears interest at a rate of three month LIBOR plus the lenders incremental cost of funds rate and a margin of 3.00% (March 31, 2009 - 6.62%) and matures in 2014. The balance of the loan at March 31, 2009 of $189 is secured by spare parts and other assets with a carrying value of $296. Financing fees totaling $6 were recorded for these borrowings.

The following table summarizes the principal and interest repayment requirements (in CDN$), based upon the foreign exchange rate and interest rate as at March 31, 2009:

	Remainder of 2009	2010	2011	2012	2013	Thereafter	Total
Spare parts financing							
Principal	$ 14	$ 19	$ 19	$ 19	$ 19	$ 5	$ 95
Interest	5	5	3	2	1	-	16
	$ 19	$ 24	$ 22	$ 21	$ 20	$ 5	$ 111

Spare Engine Financing

During the first quarter of 2009, the Corporation obtained an additional $46 (US$37) principal and included an additional 22 engines under the original secured financing agreement, which is further described in Note 6 (e) of the 2008 annual consolidated financial statements of the Corporation. This financing bears interest at a rate of three month LIBOR plus 3.40% (March 31, 2009 – 4.63%) and matures in 2013. The balance of the loan at March 31, 2009 of $139 is secured by 32 engines with a carrying value of $163. Financing fees totaling $2 were recorded for these borrowings.

The following table summarizes the principal and interest repayment requirements (in CDN$), based upon the foreign exchange rate and interest rate as at March 31, 2009:

	Remainder of 2009	2010	2011	2012	2013	Thereafter	Total
Spare engine financing							
Principal	$ 3	$ 5	$ 5	$ 5	$ 27	$ -	$ 45
Interest	2	2	2	1	1	-	8
	$ 5	$ 7	$ 7	$ 6	$ 28	$ -	$ 53

Pre-delivery Financing

During the first quarter of 2009, as a result of the delivery of a Boeing 777 aircraft, the Corporation made repayments of $83 (US$66) on the pre-delivery financing as described in Note 6 to the 2008 annual consolidated financial statements of the Corporation. This was the final repayment on the pre-delivery financing.

Boeing Aircraft

During the first quarter of 2009, the Corporation took delivery of a Boeing 777 aircraft. The aircraft was financed with guarantee support from the Export-Import Bank of the United States ("EXIM"). The principal of $136 (US$109) bears interest at a rate of three month LIBOR (March 31, 2009 – 1.24%) and matures in 2021. The loan is secured by the delivered aircraft with a carrying value of $142. Financing fees of $4 were recorded for this borrowing.

The following table summarizes the principal and interest repayment requirements (in CDN$), based upon the foreign exchange rate and interest rate as at March 31, 2009:

	Remainder of 2009	2010	2011	2012	2013	Thereafter	Total
Boeing 777 financing							
Principal	$ 9	$ 11	$ 11	$ 12	$ 12	$ 83	$ 138
Interest	1	2	1	1	1	4	10
	$ 10	$ 13	$ 12	$ 13	$ 13	$ 87	$ 148

Sale Lease-back

During the first quarter of 2009, the Corporation entered into a sale lease-back transaction for a Boeing 777 aircraft, which was originally delivered in 2007 and debt financed. The proceeds from the transaction of $172 were used to repay the outstanding loan of $114. The Corporation recorded a charge of $17 in interest expense for this transaction including a prepayment fee of $14 and $3 for the write off of deferred financing charges. The gain on sale of the aircraft of $26 has been deferred and will be recognized in Depreciation and amortization over the term of the lease. The lease is accounted for as a capital lease with a 12 year term, with monthly lease payments.

Spare Parts Inventory

During the first quarter of 2009, the Corporation purchased $103 of spare parts inventory. Consideration for the purchase was in the form of the issuance of bills of exchange due in February 2010. The bills of exchange, which are recorded in Accounts payable and accrued liabilities as an other financial liability at amortized cost, are non-interest bearing and were initially recorded at estimated fair value based upon market rates of interest. Subsequent to this transaction, the Corporation repurchased two bills of exchange with a book value of $21 (US$17) recognizing a decrease to the carrying value of the related inventory of $8 (US$6).

Disposals of and Provisions for Assets

There were no significant disposals or provisions during the first quarter of 2009.

During the first quarter of 2008:

- The Corporation recorded an impairment charge of $38 on its fleet of B767-200 aircraft due to the revised retirement date of the aircraft.

- The Corporation sold an A319 aircraft for proceeds of $23 with a book value of $21, resulting in a gain on sale of $2.

3. PENSION AND OTHER BENEFIT LIABILITIES

Pension and Other Benefit Expense

The Corporation has recorded pension and other employee future benefits expense as follows:

	Three Months Ended March 31			
	2009		2008	
Pension benefit expense	$	3	$	17
Other employee future benefits expense		20		26
		23		**43**
Amount charged to ACE, Aveos and Aeroplan		(7)		(9)
Net pension benefit and other employee future benefits expense	**$**	**16**	**$**	**34**

4. LABOUR RELATED PROVISIONS

The following table outlines the changes to labour related provisions which are included in long-term employee liabilities:

	Three Months Ended March 31			
	2009		2008	
Beginning of period	$	54	$	66
Interest accretion		1		1
Charges recorded in wages, salaries, and benefits		11		-
Amounts disbursed		(5)		(9)
End of period		61		58
Current portion in Accounts payable and accrued liabilities		(27)		(26)
	$	**34**	**$**	**32**

The Corporation offers certain severance programs to certain employees from time to time. The cost of these programs is recorded within Operating expenses.

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Summary of Losses on Financial Instruments Recorded at Fair Value

	Three Months Ended March 31			
	2009		2008	
Ineffective portion of fuel hedges	$	-	$	(38)
Fuel derivatives not under hedge accounting		(9)		6
Cross currency interest rate swaps		-		6
Other		(1)		3
Loss on financial instruments recorded at fair value [(1)]	**$**	**(10)**	**$**	**(23)**

(1) See Fuel Price Risk for a discussion of losses on fuel derivatives recorded in Other comprehensive income ("OCI").

Risk Management

Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with its financial liabilities and other contractual obligations.

Refer to Note 1 above and Note 1 (c) of the 2008 annual consolidated financial statements for a further discussion on liquidity risk.

Fuel Price Risk

In order to manage its exposure to jet fuel prices and to help mitigate volatility in operating cash flows, the Corporation enters into derivative contracts with financial intermediaries. The Corporation uses derivative contracts on jet fuel and other crude oil-based commodities, heating oil and crude oil. Heating oil and crude oil commodities are used due to the relative limited liquidity of jet fuel derivative instruments on a medium to long-term horizon since jet fuel is not traded on an organized futures exchange. The Corporation does not purchase or hold any derivative financial instrument for speculative purposes. The Corporation designates certain of its fuel derivatives as cash flow hedges and applies hedge accounting as prescribed under CICA section 3865, Hedges. There were no derivative contracts entered into during the first quarter of 2009.

The types of derivative instruments used by the Corporation within its hedging program, such as swaps and the put options within collar structures, expose the Corporation to the potential to have to make collateral deposits. When fuel prices decrease causing the Corporation's derivative position to be in a liability position below the set credit thresholds with counterparties, the Corporation is responsible for extending collateral to the counterparties. As at March 31, 2009 the Corporation had extended $181 of collateral to counterparties (December 31, 2008 – $328).

As of March 31, 2009, approximately 31% of Air Canada's anticipated purchases of jet fuel for the remainder of 2009 are hedged at an average West Texas Intermediate ("WTI")-equivalent capped price of US$104 per barrel, of which 46% is subject to an average WTI-equivalent floor price of US$82 per barrel. Air Canada has also hedged approximately 13% of its 2010 anticipated jet fuel purchases in crude oil-based contracts hedged at an average capped price of US$110 per barrel, of which 87% is subject to an average floor price of US$101 per barrel.

The following table outlines the notional volumes per barrel along with the weighted average floor and capped price for each year currently hedged by type of derivative instruments. These average contract prices represent the equivalent price in WTI using the forward prices for WTI, heating oil, and jet fuel as at March 31, 2009.

Derivative Instruments	Term	Volume (BBLs)	WTI-equivalent Average Floor Price (US$/bbl)	WTI-equivalent Average Capped Price (US$/bbl)
Call options (a)	2009	2,830,000	n/a	$ 116
	2010	400,000	n/a	$ 134
Swaps (a)	2009	855,000	$ 99	$ 99
	2010	1,070,000	$ 99	$ 99
Collars (a)	2009	1,600,000	$ 73	$ 84
	2010	1,560,000	$ 102	$ 112
Put options (b)	2009	600,000	$ 40	n/a

(a) The Corporation is expected to generate fuel hedging gains if oil prices increase above the average capped price and is exposed to fuel hedging losses if prices decrease below the average floor price.

(b) The significant decrease in oil price during the last quarter of 2008 led the Corporation to purchase crude-oil put options in 2008. The Corporation is expected to generate fuel hedging gains if oil prices decrease below the average floor price. Their objective is to protect against potential additional collateral requirements caused from further price decreases. The fair value of these derivative instruments increases as crude oil price decreases, therefore offsetting in part the exposure on the total portfolio and limiting the collateral requirements.

The following information summarizes the financial statement impact of fuel derivatives:

		Three Months Ended March 31	
		2009	2008
Consolidated Statement of Operations			
Operating expenses			
Aircraft fuel	Realized effective gain (loss) derivatives designated under hedge accounting	$ (127)	$ 34
Non-operating income (expense)			
Gain (loss) on financial instruments recorded at fair value	Ineffective gain (loss) derivatives designated under hedge accounting	$ -	$ (38)
	Fair market value gain (loss) economic hedges	$ (9)	$ 6
Consolidated Statement of Comprehensive Loss			
	Effective gain (loss) derivatives designated under hedge accounting	$ (1)	$ 146
	Tax expense on effective gain	$ -	$ (46)
	Reclassification of net realized (gain) loss on fuel derivatives designated under hedge accounting to Aircraft fuel expense	$ 127	$ (34)
	Tax on reclassification	$ 2	$ 11

		March 31 2009	December 31 2008
Consolidated Statement of Financial Position			
Current assets	Collateral deposits for fuel derivatives	$ 181	$ 328
Current liabilities*	Fair market value of fuel derivatives designated under hedge accounting	$ 1	$ (405)
	Fair market value of fuel derivatives economic hedges	$ (213)	$ (15)
Shareholders' equity (AOCI)	Net loss from fuel derivatives designated under hedge accounting	$ (478)	$ (606)

* The balance is reflected within Current liabilities on the Consolidated Statement of Financial Position due to the counterparty's ability to terminate the derivatives at fair value at any time prior to maturity.

The Fuel and other derivatives line on the Consolidated Statement of Cash Flow includes adjustments for non-cash items impacting fuel expense as well as adjustments for cash items not affecting net income during the period arising because of timing differences.

During the first quarter of 2009, fuel derivative contracts cash settled with a fair value of $45 in favour of the counterparties ($39 in favour of the Corporation in the first quarter of 2008). Of the $45, $1 relates to derivatives designated under hedge accounting and $44 for economic hedges (first quarter of 2008 - $32 and $7, respectively).

During the first quarter of 2009 hedge accounting was discontinued for certain fuel hedge contracts, where the hedging relationship ceased to satisfy the conditions for hedge accounting. The Corporation still continues to hold these derivatives as it believes they continue to be good economic hedges in managing its exposure to jet fuel prices. The value of the Accumulated other comprehensive loss ("AOCI") balance recognized in connection with these derivatives will be reclassified to fuel expense upon the maturity of the contracts.

During the first quarter of 2009, the Corporation modified its fuel hedge portfolio with the termination of swap and put option contracts for $172, in favour of the counterparties (first quarter of 2008 – nil). The collateral held by the counterparties covered the majority of the settlement amount therefore minimal additional cash outflows resulted. Certain of these contracts were previously designated under hedge accounting. The value of the AOCI balance recognized in connection with these derivatives while designated under hedge accounting will be taken into fuel expense in the period where the derivative was scheduled to mature.

The estimated net amount of existing losses reported in AOCI that are expected to be reclassified to net income (loss) during the following 12 months is $350 before tax.

6. SEGMENT INFORMATION

A reconciliation of the total amounts reported for Passenger revenue and Cargo revenue on the Consolidated Statement of Operations is as follows:

Passenger revenues	Three Months Ended March 31 2009	Three Months Ended March 31 2008
Canada	$ 817	$ 922
US Transborder	439	530
Atlantic	323	370
Pacific	180	205
Other	252	284
	$ 2,011	**$ 2,311**

Cargo revenues	Three Months Ended March 31 2009	Three Months Ended March 31 2008
Canada	$ 15	$ 23
US Transborder	4	5
Atlantic	32	58
Pacific	20	28
Other	9	10
	$ 80	**$ 124**

Passenger and cargo revenues are based on the actual flown revenue for flights with an origin and destination in a specific country or region. Atlantic refers to flights that cross the Atlantic Ocean with origins and destinations principally in Europe. Pacific refers to flights that cross the Pacific Ocean with origins and destinations principally in Asia. Other passenger and cargo revenues refer to flights with origins and destinations principally in South America, South Pacific, and the Caribbean. Other operating revenues are principally derived from customers located in Canada.

7. JAZZ CAPACITY PURCHASE AGREEMENT

Air Canada and Jazz Air LP ("Jazz") are parties to a capacity purchase agreement ("Jazz CPA") pursuant to which Air Canada purchases substantially all of Jazz's fleet capacity based on predetermined rates, in addition to reimbursing Jazz, without mark-up, for certain pass-through costs as defined in the Jazz CPA which include fuel, airport and user fees and other. The fees include both a variable component that is dependent on Jazz aircraft utilization and a fixed component and are recorded in the applicable category within the operating expenses in the results of Air Canada.

The following table outlines Jazz CPA and pass-through costs for the period:

	Three Months Ended March 31 2009	Three Months Ended March 31 2008
Expenses from Jazz CPA	$ 246	$ 235
Pass through fuel expense from Jazz CPA	57	93
Pass through airport expense from Jazz CPA	47	50
Pass through other expense from Jazz CPA	15	15
	$ 365	**$ 393**